UNIDO

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REGIONAL CONSULTATION ON THE RESTRUCTURING OF THE CAPITAL GOODS INDUSTRY IN LATIN AMERICA AND THE CARIBBEAN

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Explanatory notes

The following abbreviations of organizations are used in the present report:

ABIMAQ	Brazilian Association of Machinery and Equipment Industries
ADC	Andean Development Corporation
ALABIC	Latin American Association of Capital Goods Manufacturers
CDI-EEC	Centre for the Development of Industry of the European Economic Community
CONDIBIECA	Venezuelan National Council for the Development of the Capital Goods Industry
ECLAC	Economic Commission for Latin America and the Carribean
SELA	Latin American Economic System

PREFACE

The System of Consultations is an instrument through which the United Nations Industrial Development Organization (UNIDO) serves as a forum for developed and developing countries in their contacts and discussions directed towards the industrialization of the latter countries. Participants in the Consultations include government officials, as well as representatives of industry, labour, consumer groups and others, as deemed appropriate by the Government concerned. The System facilitates negotiations among interested parties, at their request, either during or after the Consultation meetings.

Benefits deriving from this activity include the identification of obstacles to industrial development in developing countries; the monitoring of trends in world industry with a view to identifying action-oriented measures for increasing the industrial output of developing countries; and the search for new forms of international industrial cooperation in North-South and South-Sout' relations.

Since the inception of the System 1/ in 1975, Consultations have been held on the following industries and topics: agricultural machinery, building materials, capital goods, electronics, fertilizers, fisheries, food processing, industrial financing, iron and steel, leather and leather products, non-ferrous metals, petrochemicals, small- and medium-scale enterprises, the training of industrial manpower, vegetable oils and fats, wood and wood products and medicinal and aromatic plants. The System brings together sectoral decision makers to deliberate on and propose concrete measures to accelerate the process of industrialization in developing countries. It has generated many innovations, particularly with respect to technological alternatives, integrated development and contractual arrangements. The many opportunities thus provided have led to the implementation of projects in technical assistance, investment promotion and technology transfer.

The Consultation process, by virtue of its consensual and normative character, has revealed itself to be an efficient vehicle for balancing the various interests involved in international industrial cooperation. It is eminently suited to assisting member States in the formulation of strategies and policies for industrial development.

The System of Consultations operates under the continuous and close guidance of the Industrial Development Board of UNIDO. In addition to undergoing annual reviews and occasional progress appraisals, the System was subjected to an in-depth evaluation in 1989, which concluded that it was making a major contribution to the development and formulation of UNIDO policies and programmes in specific sectors through integration and interaction with the other main activities of the Organization.

1/ See Report of the Second General Conference of the United Nations Industrial Development Organization (ID/CONF.3/31), chap. IV, "The Lima Declaration and Plan of Action on Industrial Development and Co-operation", para. 66.

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INTRODUCTION

1. The Regional Consultation on the Restructuring of the Capital Goods Industry in Latin America and the Caribbean was held at Caracas, Venezuela, from 9 to 12 November 1992. The Regional Consultation was organized in close cooperation with the Latin American Economic System (SELA) and the Venezuelan National Council for the Development of the Capital Goods Industry (CONDIBIECA). The Consultation was attended by 65 participants from 16 countries, including 18 representatives of regional organizations and international industrialists' organizations such as the Andean Development Corporation (ADC), the Latin American Association of Capital Goods Manufacturers (ALABIC), the Centre for the Development of Industry of the European Economic Community (CDI-EEC), the Bolivar Programme and SELA. For a list of the participants, see annex I below.

2. The Regional Consultation was dedicated to the memory of Fernando Fajnzylber, Director of the Joint Division of Industry and Technology of UNIDO and the Economic Commission for Latin America and the Caribbean (ECLAC) from 1984 to 1991, for his valuable technical and scientific contribution to the development of the industrial sector in the region.

Background

3. The capital goods industry in Latin America and the Caribbean is in a serious crisis characterized by an inability to compete effectively in the international market and a high rate of unutilized installed capacity. In November 1991, according to data published by ALABIC, the Latin American capital goods industry utilized less than 50 per cent of its installed capacity.

4. This complex situation has prevailed in the region since the early 1980s, when changing global economic trends exerted pressure on countries to change their development policies in favour of import liberalization and privatization. These changes occurred in a relatively short span of time, with Governments relaxing drastically their direct control of national economies. The excessive external debts aggravated the problem as interest rates rose steeply, resulting in negative flows of financial resources from the region. Governments reacted with sudden policy reversals by taking such measures as suspending all new investment projects, slowing implementation of ongoing projects and deferring payment for work completed and goods and services previously supplied.

5. In an effort to diminish the debt burden, Governments began selling off public firms to raise capital and reduce expenditures. Preferential treatment of local firms was also curtailed and countries opened up their economies by the reduction of tariff levels, the abandonment of compulsory national purchasing provisions for the public sector and the removal of discriminatory treatment against foreign investors.

6. The scarcity of financial resources in the region also encouraged the purchase of capital goods from sources outside the region where favourable financial terms were offered. External credits were used to purchase new machinery and equipment even though some of them could have been produced locally.

7. The crisis faced by capital goods producers in Latin America and the Caribbean has been further aggravated by rapid technological changes at the global level affecting the industry as a whole. Flexible automation technologies such as computer-aided design and computer-aided manufacturing (CAD/CAM)

systems and various configurations of flexible manufacturing systems (FMS) are widely used in industry universally. Apart from these technological changes, organizational innovations based on just-in-time principles have found extensive application in the capital goods sector worldwide, bringing with them new comparative advantages.

8. Within this context of reduced captive markets, strong international competition and technological backwardness, the very survival of the Latin American capital goods sector is in jeopardy. Although its strategic role in industrial development is well recognized, what appears to be lacking is a clear vision of how to reconcile the seemingly conflicting requirements for sustaining a national capital goods industry and simultaneously encouraging the free flow of technology, goods and services from external sources. Efforts to sustain the capital goods sector should be aimed at increasing the international competitiveness of the industry so as to enable local firms to compete effectively with foreign suppliers.

9. It is clear that, despite the decisive importance of factors relating to entrepreneurial behaviour as the basis for competitiveness, attention must be drawn to the need for the existence of a stable macroeconomic environment and the encouragement of regional complementarity.

10. A very important role is played by associations of industrialists and the State as a mechanism for supporting private initiative. Only by the dynamic interaction of all those involved in the Latin American capital goods sector in devising a sectoral strategy for the 1990s will it be possible to help the sector to solve the crisis that it is currently facing.

Preparatory activities

11. A preparatory meeting was held at Sao Paulo, Brazil, from 25 to 27 March 1992. The meeting was organized by UNIDO in cooperation with the Brazilian Association of Machinery and Equipment Industries (ABIMAQ), ALADIC, ECLAC, SELA and the National Trade Union for the Machinery and Equipment Industries (SINDIMAQ). Experts from Argentina, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico and Venezuela and representatives of intergovernmental and non-governmental organizations examined and discussed matters relating to financing, environmental pollution and competitiveness in the capital goods sector.

12. The participants in the preparatory meeting selected the following topics as the main subjects for discussion at the Regional Consultation:

(a) The role of the State, industrial associations and the private sector in the development of the capital goods industry in Latin America and the Caribbean;

(b) Measures to improve the international competitiveness of the capital goods industry in Latin America and the Caribbean.

AGREED CONCLUSIONS AND RECOMMENDATIONS

13. The participants in the Regional Consultation recognize the strategic importance of the capital goods industry, which is facing severe difficulties as a result of the sharp drop in public and private investment as well as the intrinsic weaknesses of the sector. The sector is currently in need of a process of modernization and strengthening of its competitiveness in the face of the challenges posed by the present world-wide trend towards the globalization of the economy. In this situation, all the actors involved in the capital goods sector should establish and implement a coherent and effective industrial strategy aimed at increasing the sector's capacity to compete and operate in both local and international markets. The steps taken by enterprises, professional associations, research and development institutions, Governments, labour organizations and regional and international organizations should be harmonized, complementary and proactive.

14. Accordingly, the participants at the Regional Consultation agree on the following conclusions and recommendations, which are conceived as the key elements of a strategy to promote and improve the competitiveness of the sector with a view to its recovery and subsequent growth during the 1990s:

Issue 1: The role of the State, industrial associations and the private sector in the development of the capital goods industry in Latin America and the Caribbean

(1) In the countries of the region, the State should concentrate on creating the appropriate macroeconomic conditions and on providing the necessary elements in terms of physical, institutional and support infrastructure to ensure a stable and competitive framework for the capital goods industry to perform successfully. In this transition process, it is desirable that the support instruments at the disposal of the State should be made explicit, and preference given to non-discriminatory policies. However, the main role in the new industrial strategy is to be played by the companies themselves, with the Government becoming an active partner in this process. The amount of State participation may vary from country to country depending, inter alia, on the existing level of development in the sector, and the existence of efficient public and private enterprises and infrastructure requirements. The role of the State is essential in areas such as:

(a) Promotion of investment;

(b) Promotion of exports;

(c) Introduction of financial support mechanisms for exports and modernization of companies (credit for the procurement of intangible assets, country risk insurance);

(d) Creation of an effective legal and regulatory framework;

(e) Coordination of production and technology in terms of production chains;

(f) Development of human resources;

(g) Promotion of research and technological development;

(h) Creation of technological support services;

(i) Measures aimed at administrative simplification;

(j) Support for the development of industrial information systems as the basic input for the planning process of companies;

(k) Active participation with the private sector, specialized institutions and industrial associations in activities relating to forward planning for the sector's development.

(2) The participants in the Regional Consultation also agree that greater participation on the part of industrial associations and other professional bodies is of vital importance for the development of the sector. These institutions should be strengthened and develop new capabilities in order to be able to provide services in the following areas in an efficient and skilled manner:

(a) Market intelligence (national and international);

(b) Technical training;

(c) Liaison with research institutes and universities for the purpose of devising programmes in the areas of product and process design, standardization, quality and technological innovation;

(d) Business management training and dissemination of new organizational techniques;

(e) Regional coordination and cooperation;

(f) International negotiation;

(g) Establishment of technological development systems or centres of excellence;

(h) Fostering the exchange of experience between industrial associations in developing and developed countries, for which purpose the Regional Programme for the Modernization of the Capital Goods Industry in Latin America and the Caribbean of UNIDO will be particularly useful.

Issue 2: Measures to improve the international competitiveness of the capital goods industry in Latin America

(3) The participants in the Regional Consultation recognize that, in the relationship between the State and the other industrial actors, the companies themselves bear the main responsibility for achieving the objectives set and improving competitiveness. Companies should develop efficient mechanisms enabling them to respond flexibly and effectively to customers' needs in the market segment in their own country, or in other countries of the region through market niches. Companies should seek cooperation with related and ancillary industries to foster the exchange of information and of skills and capabilities acquired in the region.

(4) All the actors involved in the capital goods sector should harmonize efforts aimed at strengthening competitiveness, exploiting available

comparative advantages to the full and developing new advantages as well as the capacity for innovation in the region. It is also felt that achieving competitiveness at the national level is often a starting-point for penetrating international markets.

(5) Industrial associations and international cooperation agencies should assist in identifying market opportunities and help make them known in order to promote complementarity, product specialization and effective market expansion.

(6) Environmental protection programmes provide the capital goods sector with new market opportunities. It is recommended that special initiatives should be launched to enable the companies in the region to take advantage of these opportunities.

(7) The participants in the Regional Consultation recognize the urgent need, with the support of the development banks, to identify, create or promote new sources of funds and export guarantee mechanisms for the sale of capital goods and the modernization of the industry.

International cooperation

15. The participants in the Regional Consultation stress the need to draw up regional cooperation programmes in the capital goods industry for both the Caribbean and Central America in the light of their special characteristics. CDI-EEC should take an active part in the implementation of a programme for the countries of the Caribbean. In the case of certain countries, and particularly those of the Caribbean, it would be appropriate to gear the capital goods sector to the special needs of rural development and environmental protection.

16. Regional and international organizations such as ADC, ECLAC, SELA and UNIDO should concentrate their help and support for this sector on areas such as:

(a) Identification of an appropriate methodology to provide a qualitative and quantitative analysis of the capital goods sector in Latin America and the Caribbean;

(b) Strengthening of industrial associations and other professional bodies operating in the sector (chambers of commerce and engineering consultancy firms), and promotion of the exchange of experience between them;

(c) Provision of information on experience with regard to the sectoral policies applied by other industrial sectors in other regions.

17. UNIDO should intensify its efforts to strengthen its links with industrial associations and professional bodies in order to maximize the impact of its assistance to the business sector. Special emphasis could be placed on drawing up strategic plans for the competitiveness of the capital goods sector.

18. The participants in the Consultation recommend that SELA and UNIDO should circulate these conclusions and recommendations among the Governments of Latin America and the Caribbean and among the financial organizations and industrialist organizations in the region.

I. ORGANIZATION OF THE CONSULTATION

Opening of the Consultation

Statement by the Permanent Secretary of SELA

19. The Permanent Secretary of SELA welcomed the participants and said that the Consultation was an excellent opportunity for formulating policy recommendations and concrete proposals for action aimed at the promotion of the capital goods industry in the region.

20. He further observed that the existing uncertainties on the industrial scene, particularly as regards trade and financing, made it all the more urgent to improve economic policies so that concerted strategies could be implemented for sectoral development, technological modernization and economic complementarity at the regional and subregional level.

21. He said that the capital goods sector in Latin America and the Caribbean was a pioneering area for implementing the new SELA programme approved at the meeting of the Latin American Council in September 1991. The programme concentrated on such areas as external trade, the financing of industrialization and technological development, economic policy and social equity, and the development of human resources.

22. The Permanent Secretary praised the System of Consultations as an appropriate forum for dialogue between the various actors. He said that Latin America and the Caribbean had not used the potential of the System of Consultations to the full extent, and he suggested that the Regional Forum on Industrial Policy of SELA should work closely with UNIDO in identifying possibilities for Consultations in the future.

23. The Permanent Secretary concluded by commending the decision to dedicate the Regional Consultation to the memory of the late Fernando Fajnzylber, in recognition of his many valuable contributions to thought and action on behalf of development in the region.

Statement on behalf of the Director-General of UNIDO

24. In his opening statement on behalf of the Director-General of UNIDO, the Deputy Director-General of the Department of Industrial Operations said that the Consultation was being held during a crucial period for developing countries. The external debt-and-balance-of-payments crisis of the 1980s had not only drastically reduced public and private investment and with it internal markets, but also made the limitations of industrialization based on import substitution abundantly clear. He noted that those changes had severely affected the capital goods industry, an infant industry that had enjoyed a privileged position in the 1960s and 1970s owing to subsidized credits, tax incentives, preferential programmes for purchases from the capital goods sector and the existence of a captive market. As a result of the sector's dependence on foreign technology and its lack of an innovative capacity of its own, which was reflected in its uncompetitiveness and low quality in international terms, many capital goods enterprises had had to close down.

25. The Deputy Director-General noted that, although macroeconomic stabilization was a necessary condition for the recovery of the capital goods sector, it was not sufficient by itself. The capital goods sector should stimulate and develop genuine competitiveness as a starting-point for achieving greater

international competitiveness. Industry should establish itself as the main agent for the incorporation of technological advances, the identification of new management methods, the development of human resources and the implementation of modern marketing strategies.

26. He went on to say that, for those objectives to be attained, all the actors involved in the capital goods sector should participate in defining an industrial strategy. In that process, enterprises and financial institutions would be key actors, while industrial associations and research institutes, together with the active direction of a modern, development-oriented State, would also play a fundamental supporting role.

27. The Deputy Director-General concluded by referring to the activities of the late Fernando Fajnzylber in the various stages of his professional life as an adviser to UNIDO and ECLAC. He then invited the participants to join him in a minute of silence in memory of that distinguished Latin American figure.

Statement by the representative of the Government of Venezuela

28. The President of the Institute of Engineering addressed the Consultation on behalf of the Government of Venezuela. He referred to the situation of the capital goods industry in Venezuela and said that it was not very different from that on the continent in general. He said that research institutions together with the CONDIBIECA had already initiated assistance activities for the sector aimed at improving its competitiveness. Training programmes in industrial design and new techniques of quality management were frequent support activities for small and medium-sized enterprises in the capital goods sector in Venezuela.

29. He also referred to the Eighth Venezuelan Workshop on the Capital Goods Industry, which would take place immediately after the Consultation. The Workshop was an annual event and served as a national forum where representatives of the capital goods industry, engineering and consultancy firms, in addition to financing and research institutions, met to discuss the efforts made to adapt to the new conditions of international competition and to consider the international market conditions for 12 categories of capital goods.

30. In conclusion, the speaker referred to Venezuela's participation in regional activities. The Regional Programme for the Modernization of the Capital Goods Industry in Latin America and the Caribbean of UNIDO constituted an excellent opportunity for promoting regional integration into a specific industrial sector.

Statement by the Director of the System of Consultations Division

31. The Director of the System of Consultations Division briefly explained the purpose of the Regional Consultation and the preparatory activities. He emphasized that regional and international cooperation remained the only viable and desirable alternative for achieving harmonious industrial development, the promotion of which was the aim of the System of Consultations.

Election of officers

32. The following officers were elected:

Chairman: Paúl Esqueda (Venezuela), Presidente, Instituto de Ingenieria, Apartado 40200, Caracas 1040-A

Rapporteur: Juventino Balderas (Mexico), Director General del Sector de Bienes de Capital, Unidad del Tratado de Libre Comercio,Secretaria de Comercio y Fomento Industrial, Alfonso Reyes No. 30 PB, Col. Hipódromo Condesa, C.P. 06140, México, D.F.

Vice-Chairmen: Luis Gustavo Florez Enciso (Colombia), Presidente, FEDEMETAL, Calle 35 # 4-81, Bogotá

Raymond Lafontant Jr. (Haiti), Directeur Exécutif, Association des Industries d'Haiti, P.O. Box 2568, Port-au-Prince

Adoption of the agenda

33. The Consultation adopted the following agenda:

1. Opening of the Consultation.
2. Election of the Chairman, Vice-Chairmen and Rapporteur.
3. Adoption of the agenda and organization of work.
4. Presentation of the issues by UNIDO.
5. Discussion of the issues:

   Issue 1: The role of the State, industrial associations and the private sector in the development of the capital goods industry in Latin America and the Caribbean

   Issue 2: Measures to improve the international competitiveness of the capital goods industry in Latin America and the Caribbean.

6. Visit to the Institute of Engineering of Venezucla.
7. Conclusions and recommendations.
8. Adoption of the report.

Documentation

34. The documents issued for the Consultation are listed in annex II.

Adoption of the report

35. The report of the Regional Consultation on the Restructuring of the Capital Goods Industry in Latin America and the Caribbean, including the conclusions and recommendations, was adopted by consensus at the final plenary on 12 November 1992.

II. REPORT OF THE PLENARY SESSIONS

36. The plenary discussions began with a presentation of the issues to be discussed by the Consultation and of the survey carried out by UNIDO.

Presentation of the issues

37. A UNIDO consultant presented the issue paper on the role of the State, industrial associations and the private sector in the development of the capital goods industry in Latin America and the Caribbean (ID/WG.526/6(SPEC.)) in which public policies concerning capital goods had been examined and their impact on the competitiveness of the sector considered. He said that the position of the State was becoming less and less that of a regulatory agent and guarantor; the State was beginning to play a different role as the creator of appropriate conditions for industrial development.

38. He presented options for a new sectoral policy for the 1990s, in which the importance of human resource development, institutional strengthening and inter-enterprise cooperation would vary according to local standards and conditions. He discussed the new financial tools and approaches that should be used to enable the private sector to aim at greater internal dynamism in order to finance the investment needed for its adjustment to the public sphere. He also pointed to industrial rationalization as a mechanism that would make it possible to tap the medium- and long-term funds that were available to supplement those from public sources.

39. A representative of the UNIDO secretariat then presented the issue paper on measures to improve the international competitiveness of the capital goods industry in Latin America and the Caribbean region (ID/WG.526/5(SPEC.)). He mentioned the development and strengthening of national or regional comparative advantages as a fundamental basis for achieving genuine international competitiveness in a specific market segment. Development, innovation and technological absorption as well as the application of effective strategic planning methods in respect of technological advances and markets were presented as basic measures for achieving international competitiveness.

Presentation of the UNIDO survey on the capital goods industry in the 1990s

40. The findings of the UNIDO survey on the capital goods industry in the 1990s were discussed by a UNIDO staff member. He said that the survey provided a concise and useful overview of the current situation of small and medium-sized enterprises in the capital goods sector in Latin America, examining their current difficulties, their requirements for modernization and the industrial strategies that entrepreneurs wished to implement in the future.

41. The findings of the survey and the set of priorities identified proved that Latin American industrialists attached considerable importance to the commercial aspects of production. The main concern continued to be the improvement of quality combined with the reduction of production costs.

42. The survey also highlighted the view of a sample of Latin American entrepreneurs that associations of industrialists represented the most important source of support at the national level, closely followed by assistance from specialized government agencies. Entrepreneurs hoped that in the 1990s, government agencies would manage to achieve a leading position with regard to enlarging support for the sector.

43. As regards the future of technical cooperation in the region, the survey revealed that one of the main priorities of entrepreneurs was the exchange of technical and market information between companies, and that there was a need for a regional commercial framework to ensure that cooperation was included in training programmes for the provision of specialized services.

Summary of the discussion

General debate

44. *A participant* said that he regarded the capital goods sector as strategic within the industrial sector; it brought about technological progress and was central to vocational training at all operational, technical and management levels. He said that the Fédération des industries mécaniques was prepared to provide assistance in all the key areas of industry, energy, environmental clean-up operations, transfer of technology, joint investment and provision of advice on restructuring and establishing new companies. Five points that the Consultation should discuss were: exchange of information between manufacturers, for example by exchanging catalogues; staff training in critical areas of industry, including automation; restructuring of existing companies and constitution of new ones; reduction of the impact of pollution from industrial activities and promotion of recycling of solid wastes and waste water; and promotion of cooperation programmes for research and development in the use of capital goods.

45. The representative of ALADIC said that the restructuring of the large-scale capital goods sector should be viewed in the context of recent events in Latin America, which had forced Governments to cancel or delay large-scale development projects. It was thus the lack of demand rather than the lack of technical efficiency that had affected the sector. That situation should be taken into account in the planning of the restructuring strategies under discussion.

46. One participant said that, despite a 10-year-old crisis, the capital goods sector in his country had continued to hold its own, because from the outset efforts had been concentrated on exports and then financial support mechanisms were available. The model was not very different from that of the Republic of Korea, involving a high level of State participation in industrial policy. He said that it would be interesting to look more closely into the government support mechanisms used in Japan.

47. Another participant noted the value of regional cooperation as a fundamental basis for the recovery of the sector in each country. The need to identify common areas where the development of comparative advantages were possible and to join efforts in identifying sources of financial support needed to be discussed in relation to the new development strategies. Regional integration should be promoted as an alternative solution in the context of the globalization of the economy. Moreover, once genuine competitiveness had been identified, it should be supported by government measures, and in particular by research and development centres.

48. Several participants said that associations of industrialists had a role to play in regional cooperation. Entrepreneurs should be given more direct support as regards market information and technological training, and regional and subregional exchanges should be promoted. One of the most important functions of the associations should be keeping abreast of the regional supply of capital goods by exchanging experiences and catalogues and by other means.

49. Another participant referred to the active, rather than passive, role of entrepreneurs in key areas such as project promotion and company management, based on specific government support in areas such as infrastructure services.

50. Another participant said that his country was currently redefining the framework of support measures for the capital goods sector. Government support was based on reciprocal commitments and agreements.

51. The representative of ECLAC said that the transformation of the capital goods sector required State support with regard to the coordination and interlinking of the production structure at the national and industry levels. There should be a specialized institution for each key area: investment promotion, exports, industrial estates, human resource development, research and development, provision of inputs and industrial services and packaging etc. Although, those institutions already existed, they needed updating for the purpose of coordinating and interlinking activities in the areas mentioned.

52. The representative of CDI-EEC highlighted three functions in the new role for the State: (a) macroeconomic policy; (b) support for the private sector by means of mechanisms that channelled its participation; and (c) monitoring to ensure that social imbalances did not slow down the process of development. The State's new role would be that of a partner, including coordination with the various sectors of the economy in order to promote their active participation. The European experience could be assimilated culturally by Latin America.

53. The same representative went on to say that the criterion of productivity, if measured only quantitatively, could be misleading because many factors of a qualitative nature were also important. It would not be advisable for Latin America to concentrate on new developments, since they were too costly, whereas there were established techniques available that were more accessible to the region.

54. Another participant said that the role of the State should be to concentrate on providing security for the various economic actors, foreign or domestic, involved in the national market. That purpose might be served by creating the necessary institutional support and establishing a clear and just legal framework. In his country, it was the business associations, and not the Government, that provided market and promotion services.

55. Several participants said that, rather than defining a role for the State, it was necessary to identify the new type of relationship being established between the public and private sectors. Among other things, that would require overcoming the current distrust between those two sectors, profiting by the diversity of points of view and bringing attitudes and positions closer together in order to ensure social cohesion. The role of the State should be restricted to functions such as the management of sectoral strategies rather than its necessarily being a manufacturer. Furthermore, within the framework of the new relationship between the public and private sectors, emphasis should be given to support by the private sector in key areas such as: total quality, joint investment, technological development, and consultations with and the involvement of industrialists.

56. A participant presented an overview of the capital goods industry in his country. He explained that by, inter alia, introducing measures at various levels of government and involving industrial associations in activities covering technical training, market intelligence assistance, creation of centres of

excellence and promotion of exports, it had been possible to increase competitiveness. His country had a highly developed capital goods industry and currently exported 45 per cent of its production, involving 7,300 companies, many of them small and medium-sized, and 530,000 employees. Forty-two per cent of the industry manufactured parts and components and 58 per cent was engaged in a wide range of assembly work. His country would be willing to cooperate closely with the capital goods sector in Latin America and to pass on the experience that it had acquired.

57. Another participant said that it was necessary to develop a pragmatic approach in all the areas identified as key areas for the enhancement of the capital goods industry, including modern management methods, informatics and transfer of technology.

58. Another participant said that there were external factors that affected a company's competitiveness and that were not controllable at the company level. However, it was important to recognize those factors because of their implications for the company's performance and for measuring its productivity. That could be a subject for research by UNIDO.

59. Another participant said that the new role of the private sector should be made explicit since it was assuming the function of principal actor and leader in industrialization. However, the level of international competitiveness established by Asians and Europeans should not be disregarded as a point of reference. Cooperation between the Government and companies should include reciprocal commitments in order to affect society at large. It was possible to emerge competitively as a group or as an individual. One initial possibility would be to use the experiences of Asian and European countries as a model for Latin America.

60. As regards financing, a participant drew attention to the need to consider the level of development of each country, and the different measures available with respect to financing and regional cooperation. For the most advanced sector of Latin America, financing should be autonomous, at international interest rates, on a long-term basis, and predominantly from internal rather than foreign sources, while cooperation might be established between countries with a relatively solid technological base. A more in-depth study would be required. For small enterprises, the role of financing was related to the reciprocal payment system and guarantees. The possibilities of cooperation could also be studied in greater depth.

61. The participants said that measures to improve the competitiveness of the sector should be consistent with macroeconomic policies. At the same time, the obstacles to the recovery of the industry in general and the capital goods sector in particular should be identified, which would make the measures viable and further the proposed policy of improving comparative advantages. That policy should thus anticipate the handling of asymmetries in the process of incorporating Latin America into the international market. It would be necessary to list all the critical areas where action needed to be taken in order to further that process of incorporation.

62. The representative of SELA said that it would be necessary to ensure that the measures to improve the competitiveness of the capital goods sector were tailor made and aimed at specific actors, namely, business associations, capital goods enterprises, research centres, trade unions and Governments in the region, as well as international organizations. Cross-sectoral proposals

should be given priority in order to avoid discriminatory treatment that might give rise to objections on the part of the Governments responsible for implementing economic policy. It would be better if the measures recommended were operational, with measurable objectives.

63. Several participants said that it was important to channel resources from international organizations and cooperation agencies to the least developed countries in the region that had yet to start the process of manufacturing capital goods, and that were currently only consumers.

Annex I

LIST OF PARTICIPANTS

Argentina

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Latin American Commission for Science and Technology

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Annex II

LIST OF DOCUMENTS

Title	Document symbol
Issue papers	
Measures to improve the international competitiveness of the capital goods industry in Latin America and the Caribbean region	ID/WG.526/5(SPEC.)
The role of the State, industrial associations and the private sector in the development of the capital goods industry in Latin America and the Caribbean	ID/WG.526/6(SPEC.)
Information documents	
Competitiveness of the Latin American capital goods industry	ID/WG.526/1(SPEC.)
Notes on the critical situation of the Latin American capital goods industry	ID/WG.526/2(SPEC.)
Financing for the operation of the Latin American capital goods industry	ID/WG.526/3(SPEC.)
The impact of environmental issues in the capital goods industry in Latin America	ID/WG.526/4(SPEC.)
Report: Preparatory Meeting for the Consultation on the Restructuring of the Capital Goods Industry in Latin America and the Caribbean	IPCT.162(SPEC.)

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